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C O N F I D E N T I A L SECTION 01 OF 03 ASHGABAT 001325

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SUBJECT: TURKMENISTAN: CONOCOPHILLIPS REP COMMENTS ON  
INTERNAL STRUGGLES AT STATE AGENCY

REF: ASHGABAT 0762

Classified By: Charge Sylvia Reed Curran for reasons 1.4 (b) and (d).

¶1. (C) SUMMARY: ConocoPhillips' External Affairs Director told emboffs that she believes the State Agency for the Management and Use of Hydrocarbons is in disarray as it plans for major reorganization and fresh staffing under Director Kakayev's supervision. Kakayev himself is experiencing a learning curve as he takes the reigns and plans the Agency's reorganization so that it can handle its new responsibilities. ConocoPhillips representatives appear to be making plans to press for negotiations without proposal partner Lukoil. Nevertheless, foreign energy companies anxious to move forward on negotiations are likely to be told they must wait longer, if they are told anything at all. END SUMMARY.

¶2. (C) Emboffs met October 1 with ConocoPhillips' External Affairs Director, Raikhan Ismailova, who had come from ConocoPhillips' office in Astana to learn what she could from the Turkmen government about the status of the company's offshore hydrocarbon development proposal. In June, company representatives had been very optimistic about their prospects for settling final outstanding issues on their proposal to work jointly with Lukoil in developing Caspian blocks 19, 20, and 21 (reftel).

¶3. (C) Ismailova said that since the end of June, when company CEO Jim Mulva had hoped to come and meet with President Berdimuhamedov, all negotiations with the State Agency for Management and Use of Hydrocarbons had stalled, and Mulva never received an invitation to come. Efforts to re-start negotiations in early September failed when the company sent two letters, one to Deputy Cabinet Chairman Tagiyev and one to State Agency Director Kakayev. The company did not receive responses to either letter.

MURADOV'S DEPARTURE CREATES VACUUM

14. (C) The letters requested official meetings for ConocoPhillips' President for Russia and the Caspian Region Don Walette, and a presidential meeting for company CEO Jim Mulva. During her current visit, a State Agency official named Meylis, who had been an assistant to former State Agency chief Muradov, told Ismailova that the State Agency was in the process of major reorganization, brought on by both the change in leadership and by the new status and responsibilities of the State Agency now codified in the new Hydrocarbons Law.

15. (C) When Muradov left the State Agency, a significant number of his executive staff had departed as well, and Meylis believed he was the only remaining member of the old staff. (COMMENT: During a recent meeting between Kakayev and a visiting U.S. official, emboffs noticed that all those sitting at the table with Kakayev were officials we had never seen before. END COMMENT.) He said that Muradov was sitting at home, waiting to receive news of a new assignment, and suggested that Muradov might potentially head up a representative office of the State Agency abroad. (NOTE: Article 6, section 2 of the Petroleum Law states that the Agency has the right to "open its representations and other divisions on the territory of Turkmenistan and abroad," so this is a reasonable possibility. Turkmen officials have mentioned that the State Agency would open offices in Asia and Europe, and possibly even in the United States. END NOTE.)

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#### KAKAYEV STRUGGLING WITH TASKS, REORGANIZATION

16. (C) Meylis told Ismailova that he thought Kakayev might fire him soon, because Kakayev had not taken him into his confidence or given him significant tasks to accomplish since arriving. Nevertheless, Meylis said that Kakayev was trying to figure out how to plan the Agency's reorganization, to include the hiring of more staff, building up employee expertise and generally filling in human capacity gaps. He also suggested that Kakayev might be struggling with the mechanics of such a major institutional reorganization.

17. (C) Meylis said Kakayev was also trying to educate himself on the mechanics of the new agreement types, such as technical service agreements and risk service agreements, which the new Petroleum Law now allows. Kakayev's expertise and talent was in overseeing hydrocarbon production statistics and estimates, rather than managing an organization. Meylis noted, however, that Kakayev's personal relationship with the president and the agency's new status were making it possible for Kakayev to interact with Berdimuhamedov directly, instead of through Deputy Cabinet Chairman Tagiyev, as Muradov had had to do.

#### CONOCOPHILLIPS TO BREAK WITH PARTNER LUKOIL?

18. (C) Meylis noted that Kakayev had recently consented to a meeting with BP representatives, but Kakayev had only been in "listening mode." Ismailova said she hoped to meet with Kakayev and learn whether Turkmen officials would consent to meet with ConocoPhillips representatives, without the presence of proposal partner Lukoil. (NOTE: Company representatives were still concerned that their proposal was not moving because of Turkmen objections to Russian company Lukoil's involvement. Company representatives appear to be prepared to negotiate ConocoPhillips interests alone, which focus largely on Caspian blocks 19 and 20. END NOTE.) She also wanted to deliver a letter to him asking for an invitation for CEO Jim Mulva to meet with the president.

19. (C) Ismailova said that Meylis, who had been very forthcoming with her in sharing what he knew, had told her that he did not tell Lukoil representatives anything at all, and specifically asked her not to share any information with

them. She said that this suggested to her that Agency officials did not trust or want to do business with Lukoil. Ismailova theorized that there might be some other considerations that are delaying negotiations. She said that the government of Kazakhstan had just cancelled the last of its production-sharing agreements (PSAs) with foreign companies, and had shifted to various service and concession agreements. She thought it possible that Turkmen officials were delaying negotiations with hydrocarbon companies while they contemplated their policy options.

#### STILL STRUGGLING TO REGISTER

¶10. (C) ConocoPhillips has been trying to register in Turkmenistan for a year, but she speculated that the split of the former Ministry of Economy and Finance caused a setback. Ministry officials suggested to her recently that the paperwork may have been lost, and the company would have to re-submit its documentation. With no local representation and the need to gather the appropriate documents again, Ismailova said this would be a setback for the company if it is confirmed.

¶11. (C) COMMENT: Ismailova's contact at the State Agency is likely painting an accurate portrait of the agency as it

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struggles to get its house in order. Given the broad staffing needs of the agency and the need to undergo a major reorganization, as well as new leadership that is trying to get itself up to speed, foreign companies could well be waiting at least several months longer for responses to their proposals. END COMMENT.  
CURRAN